

**LENDER TRAINING
FOR THE ORIGINATION OF LOANS IN The
Minneapolis/Saint Paul
City Living
2004 A1 and 2004 B2
Programs**

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INTRODUCTION

The U. S. Congress created tax exempt bond programs for housing referred to as Mortgage Revenue Bonds (MRB's). Congress created MRB's but bond programs are created by state, regional, county or city government agencies that are governed by volunteer Boards. The way it works, bonds are sold to private investors(aka bond holders). The private investors accept a lower rate of return on their bond investment because the interest they earn is exempt from federal income tax. Because the Issuer is paying the bond holder less, they can charge the borrower a lower mortgage interest rate. So federal involvement is -- Congress authorized the program and because the bonds are tax exempt the majority of program rules are tied to the **IRS Code and cannot be changed**. The Arizona HFA and Phoenix/Maricopa IDA's issue the bonds to create the pool of funds to buy the mortgages originated in the program by local lenders .

A person wants a loan in these programs.

Generally, qualified borrowers must meet income and sales price limits. They must meet standard Agency (FHA VA, Fannie) credit underwriting requirements for the loan types permitted in the program. If the lender has a commitment of funds from an Agency (i.e. Fannie, Freddie), those products are not permitted in the bond program. Bond program products are limited to those specifically outlined in the program contract that is given to **U S Bank**, the Servicer. All loans originated under program guidelines must be sold into the program through US Bank.

If you are using the ADDI or any Servicer approved products that are outside the MRB program itself, follow the guidelines for that program.

What's the process? Once qualified here's the extra steps for these loans

1. Request three years federal income tax **returns** from all buyers and spouses.
2. **If** loan type **requires Homebuyer Education**, help buyers arrange for same.
3. Have buyers sign and date the "**Notices to Buyers**" and to the buyers copy attach the "**Recapture Brochure**". **ORIGINAL** is shipped to U S Bank after closing
4. **RESERVE** the loan in our online system.

5. After your underwriter approves buyers, your underwriter accesses our system, completes one screen online. The screen automatically populates, underwriter reviews and finally SUBMITS.

You're ready to close.

6. Bond program closing forms –

a) Affidavits/Certifications - three part form signed by buyers, sellers (both notarized) and lender and **ORIGINAL** is shipped to US Bank after closing;

b) Tax Exempt Rider one page form signed by buyers and **RECORDED**.

c) for the 2004A1 the Final Recapture Notice

Loans Through Lenders

Lenders originate loans in the City Living Program. They pay a **fee** and sign **documents** annually. By doing so they participate in the various issues made available within the year.

Available City Living Products

The **2004B2** program is designed for **middle income** borrowers who are not first-time homebuyers.

The **2004A1** program is designed for **first-time** homebuyers (exception: persons purchasing in program Targeted Areas).

There may be other products (i.e. Minneapolis ADDI funds) that are available in conjunction with the first mortgages. They must be approved by the Servicer.

General Rules Regarding Commitment Lots

?A portion of the total program funds called a “commitment lot” is priced periodically and is available **first-come, first-served.**

?Funds are available in “Commitment Lots” that are priced periodically.

?Commitment Lots generally provide **120** days from the time the rate is announced until all loans must be purchased by the Servicer.

Assistance Grant

Assistance is calculated on the **full loan amount**, funded by the Lender at closing, **fully utilized** in the transaction and **reimbursed by** The Servicer at loan purchase. Assistance may be used toward down payment and closing costs to the extent permitted by the Insurer/Guarantor and/or Fannie Mae. Closing Costs mean prepaid taxes and insurance premiums, guaranty fees, credit report fees, survey fees, appraisal fees, inspection fees, title insurance premium, abstract and attorney's fees, escrow and courier fees, recording fees, the Origination Fee and similar fees and such closing costs may not exceed the reasonable and customary amounts charged by the Lender for mortgage loans not funded from the bond proceeds. Closing costs may include earnest money deposits provided the reimbursement of earnest money deposits (1) are not prohibited by the insurer/guarantor and (2) any program required minimum borrower contribution (if any) has been met. In the event funds are applied to all the allowable costs stated above and funds remain available, assistance may be used for a principal reduction

Assumptions First mortgage loans **may be assumed** by a qualified borrower meeting income and acquisition price restrictions in place at the time of the assumption. Such loans must continue to fully comply and be insured or guaranteed by the *insurer/guarantor* or a mortgage insurer

Cosigners are allowable in an FHA transaction when meeting the following conditions: (1) a co-signer cannot have any ownership interest in the property (they cannot be on the title) and (2) the cosigner cannot reside in the property being purchased. A cosigner's income is not considered for bond program purposes, tax returns are not required and co-signers do not sign any bond documents. Follow FHA guidelines for credit purposes only.

Occupancy Buyers are required to occupy the property purchased in this program within **60 days** of closing.

Recapture First mortgage loans originated under the 2004A1 program may be subject to the Recapture Provision under the Internal Revenue Code. The recapture tax is similar to a prepayment penalty but is imposed by the IRS to recapture some of the cost benefits given to the homebuyer through the bond program. Recapture tax **MAY APPLY** if the property is sold within 9 years of purchase, there is a profit and the seller's income exceeds what's allowed at the time they sell. The amount they owe can't be determined until time of sale.

Subordinate Financing All subordinate financing **must be approved** by U S Bank's Program Development Manager.

COMPLIANCE REVIEW

There are requirements imposed by the IRS and the Issuer that are reviewed for compliance with the program guidelines. It is the responsibility of lenders to review program documents and to originate loans that meet the requirements. The Servicer is not obligated to purchase loans that do not comply with program terms. Bond Compliance reviews loans to assure compliance. An important requirement is that program funds are used for the purpose of **acquiring**, not refinancing, owner-occupied single family homes. Temporary, construction or bridge financing with a term of **2 years** or less may be refinanced.

Qualify the HOUSEHOLD Income

Include the income of **HOUSEHOLD RESIDENTS** who are 18 years of age or older and have income.

Include **ALL** income. Income for bond program purposes is current income annualized.

All borrower assets **are not considered** when using the first mortgage bond program. The amount of remaining reserves required is determined by the type of financing used (i.e. FHA, VA.).

QUALIFY THE PROPERTY

- MRB Program funds may be used to finance NEW OR EXISTING single family residences (detached, attached, rowhouse, townhouse, qualified condominium unit [including Spot approvals] and qualified 2 unit dwellings) that are the primary full- time residence of the borrowers.It is also the place where the person lives on a full- time basis. Mobile, recreational, seasonal or other types of vacation or non- permanent homes are not eligible under the program.

- Land may not exceed the size required to maintain basic livability.
- The remaining economic life of the property may be no less than **30 years**
- Newly constructed means that the home has never been previously occupied.
- Properties purchased in the program must be residential units. No more than **15%** of the square footage of the home being purchased may be used in connection with a trade or business including Child Care services).
- Manufactured and Modular Housing qualify if they meet all applicable **FHA** guidelines

Targeted Areas:

In bond program targeted areas, a buyer need not be a first-time homebuyer but must reside in the property as their primary residence. Income and sales price limits **are higher** in targeted areas

Allowable Origination, Discount and Other Fees

- The program permits 1.00% origination and **0.00%** discount. No additional origination and/or discount may be charged buyer or seller.
- The program includes a Bond Application Fee of \$225 and a Tax Service Fee of \$65 (paid by buyer/seller to the extent allowable by Agency) and paid to the Servicer . These fees **may not** be financed. They will be netted at loan purchase and must be disclosed on the HUD-1 as being paid to the Servicer.
- .Lenders are permitted normal, reasonable and customary charges that are also acceptable to the applicable Agency.

PROCESSING THE LOAN

Follow your normal procedures adding bond program requirements (i.e. include three years **SIGNED** tax returns of all buyers in package to underwriter).

Important Information Regarding Forms

Original, personal signatures of all borrowers **are required** on all documents associated with the transaction.

Powers of Attorney and/or Personal Representatives for the Borrower Are **Not** Acceptable. Exception: Active Duty Military Personnel may provide an ‘Alive and Well’ letter.

Names and signatures of all Buyers and Sellers must **match** throughout all documents. Whenever a party is known in any of the documents by more than a single name, a Name Affidavit Will Be Required.

OTHER FORMS REQUIRED FOR COMPLIANCE REVIEW

Federal Income Tax Returns (Tax returns for the preceding year are due **April 15** of the current year.) Signed copies of the past 3 years' returns and all schedules are required for all borrowers and their spouses, regardless of whether the spouses are taking title to the property. Extensions are **not** acceptable in lieu of returns.

Real Estate Purchase Contract; Final Typed Loan Application (1003); HUD1 Settlement Statement; Warranty Deed; and Issuer required Mortgagor and Seller Surveys

Who Signs Bond Documents

- THE SIMPLE RULE OF WHO SIGNS BOND FORMS – IF THE PERSON'S NAME **IS ON THE TITLE**, THEY SIGN THE BOND FORMS. IF THEY DO NOT TAKE TITLE, THEY DO NOT SIGN THE BOND FORMS.

Now let's look at the specifics of each program.